



Holger Schmieding, Chief Economist | [Holger.schmieding@berenberg.com](mailto:Holger.schmieding@berenberg.com) | +44 20 3207 7889

## GERMAN POLITICS: MORE UPHEAVAL BUT NO NEW DIRECTION

### Berenberg Macro Flash

Germany's two weekend events, the stage one result of the SPD leadership contest and the Thuringia state election, do not change the outlook much: we continue to see a 30% risk that Chancellor Angela Merkel's coalition will fall apart and that she will be out of office by next spring. At the margin, the events accentuate these risks. On balance, it still looks significantly more likely that Merkel will be able to stay on for longer, though. In terms of fiscal expansion, Berlin remains unlikely to go well beyond the slow-motion stimulus of around 0.5% of GDP in 2020 that is largely in the pipeline already. While the stimulus may be scaled up slightly in coming months in response to Germany's mild recession, we do not expect a big additional one-off boost.

#### **SPD-leadership race: Scholz looks vulnerable**

Finance minister Olaf Scholz and his partner Klara Geywitz made it into the run-off to lead the centre-left SPD in the future. With 22.7% of the first-round vote, they came slightly ahead of the more left-wing duo Norbert Walter-Borjans/Saskia Esken with 21%. That the well-known but uncharismatic Scholz did not gain a more convincing lead over his less known rivals shows that he is vulnerable. Many members of the once venerable but now heavily diminished SPD are yearning for change.

Scholz/Geywitz stand for continuity. They want the SPD to stay in government with Merkel and pursue a steady fiscal policy with a measured instead of a massive expansion. Walter-Borjans/Esken are the favourites of many left-wingers including the SPD youth organisation. They seem more inclined to leave the coalition with Merkel. In September, Walter-Borjans demanded a €500bn public investment programme over 10 years as a condition for supporting Merkel. That would be equivalent to €50bn (c1.4% of GDP) per year.

Three of the four female/male duos who were eliminated in the first round of the SPD membership ballot drew their support mostly from the left. That gives Walter-Borjans/Esken a better chance of garnering their votes. However, a potential rise in participation from a mere 53.3% in the first round may help Scholz/Geywitz in the decisive second round to be held 19-29 November. On balance, the race seems open with a modest edge for Walter-Borjans/Esken.

The result of the SPD leadership contest will influence but not determine the SPD decision whether or not to stay in government. Ahead of the SPD party congress on 6-8 December, Merkel's CDU/CSU-SPD coalition will publish a review of its two years in office that will highlight how much the SPD has been able to shape policies. Leaving the coalition with Merkel could trigger early elections at which the SPD would probably fare badly. Losing influence and seats may not be appealing for the party. For example, if Walter-Borjans really wanted a more expansionary fiscal policy, he would have to keep the SPD in government to tilt actual policies at least slightly into that direction.



### **Thuringia: the centre no longer holds**

With heavy losses for Merkel's **CDU** and the **SPD** and strong gains for the right-wing **AfD** and the **Left Party**, the result of the state election in Thuringia came in largely in line with opinion polls. The CDU - which had governed the small east German state from 1990 to 2014 - fared even slightly worse than expected with just below 22%, dropping into third place behind the AfD (23.5%). While stagnating around 14% in national opinion polls, the AfD continues to gain support in East Germany. In one respect, the Thuringia result repeats the pattern seen in the east German states of Brandenburg and Saxony in September already: as the rise of the right-wing AfD polarises the political debate, the party that leads the state government benefits from a counter-reaction of anti-AfD voters. In the case of Thuringia, this was the Left Party under the widely respected state prime minister Bodo Ramelow with 31% (infratest dimap projection at 22:11h local time).

On the federal level, the Thuringia result adds to the woes of the SPD (just 8.2% of the regional vote) and deals another blow to CDU party leader Annegret Kramp-Karrenbauer (AKK). Her position as heir-apparent to Merkel is becoming more tenuous. In the - still unlikely - case of early snap elections within the next six months, she would probably still be the CDU's lead candidate. But the longer Merkel stays in office, the more likely it may become that the CDU goes for a different candidate in the end such as Merkel's and AKK's erstwhile rival Friedrich Merz.

The **Greens**, who have been riding high in national opinion polls since May, suffered a setback in Thuringia with just 5.1%, coming in even below expectations. While Thuringia is a special case largely due to the regional popularity of the Left Party's Ramelow, the outcome adds to other signs that support for the Greens may have peaked.

Forming a state government in Thuringia will be unusually difficult as no other party will work with the AfD and the CDU has so far ruled out a coalition with the Left Party. Most likely, Ramelow will stay on as head of a minority government, at least for while.

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Joh. Berenberg, Gossler & Co.  
KG  
60 Threadneedle Street  
London EC2R 8HP  
Phone +44 20 3207 7889  
[www.berenberg.com](http://www.berenberg.com)  
[holger.schmieding@berenberg.com](mailto:holger.schmieding@berenberg.com)